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The Soviet Economic Challenge

It is a privilege to participate in the Council's Sixth Annual Conference on International Affairs. Over the years I have been impressed, as have many others in government, by the effort and resources the Council devotes to the promotion of an informed appreciation of world affairs. This is a particularly valuable service in a period where rapid change is the rule rather than the exception.

Our subject is the Soviet economic offensive. But the Moscow directed thrust against the Free World and its institutions is far more than economic, indeed, it is a total challenge.

Under these conditions, economic competition is growing in importance. The Soviet leaders are confident that continued forced draft industrial growth within the borders of the USSR will demonstrate the superiority of communism over free enterprise to the uncommitted nations. Indeed, the achievement of rates of growth significantly higher than those being posted by the leading industrial nations of the West makes up the core of the Kremlin argument that communism is the wave of the future. Such growth will also provide the industrial muscle the Kremlin needs to assist the spread of communism in the Free World by economic means.

There is no denying that Soviet economic growth has been spectacular. In the short space of 30 years, the USSR has moved forward to occupy second place among the world's industrial powers. It has done so by denying its own people the material benefits of their labor; instead it has plowed back every possible ruble into the expansion of heavy industry. Further, Soviet industry has concentrated on the output of producers goods and armaments. In contrast, our own industry has centered its efforts on turning out a wide variety of consumers goods.

Consider for a moment the structure of the two largest economies in the world. In 1959, with a gross national product, computed on the same basis as we compute our own, and equal to only about 45 percent of ours, the Soviet military effort measured in dollars was about equal to that of the United States. At the same time, gross investment in Soviet industry was approximately equal to gross investment in U.S. industry.

On the other hand, Soviet citizens had available only about one-third of the total goods and services available to Americans. Converting these data to a per capita basis, you can see that standards of living in the Soviet Union today are not much over one-fourth the level being enjoyed by our own people.

What of the future? The intentions of the Soviet leaders are very clear. The obsession with overtaking and surpassing the United States economy in the shortest possible historical

period of time was the dominant theme of the 21st Party Congress, held in Moscow a year ago this month. The Seven Year Plan, which blueprints Soviet economic intentions through 1965, established the formidable goal of increasing industrial production by 80 percent.

If there were serious doubts about Soviet capabilities to achieve these industrial goals, they disappeared on January 14th when Khrushchev made his memorable "State of the Union" address to the Supreme Soviet. The demobilization of over a million men from the Soviet armed forces, to be completed by 1961, and the cutback in the procurement of conventional weapons to save billions of rubles, will provide, in Khrushchev's own words, and I quote,

"A great additional amount for the fulfillment and overfulfillment of our economic plans."

Based on all we now know about Soviet economic plans, and the allocation of resources to implement these plans, we can estimate that their industrial production will probably grow at an annual rate of 8 to 9 percent a year during the 1960's. This is not the official Soviet rate, which is somewhat higher, but is a reconstruction of their data to make the measure of industrial production comparable to our own.

If this estimate is reasonably correct, it follows that the rate of growth of Soviet industry shows no appreciable tendency to slow down, compared to its progress over the past five years. Further, because USSR is expanding its manufacturing facilities at

a rate roughly double our own, the present gap between Soviet and United States industrial output will be narrowed by 1965. This will be particularly the case in the fields of basic raw materials and producers goods, but not in the field of consumers goods.

The upward surge in Soviet industrial output would cause us no concern if the Central Committee of the Communist Party were channeling most of the goods and services, added each year, to provide the Russian people a fuller life. However, this is not the case. Even by 1965, the diet of the average Soviet citizen will be deficient by present U.S. standards. Ivan Ivanovich will be receiving less than half the quantity of clothing his American counterpart enjoys even now. The achievement of the much publicized 1965 housing goal will still leave the average Russian city dweller with only 20 percent of the living space our urbanites now enjoy. All of these comparisons omit the question of relative quality, which, while beyond statistical measurement, undoubtedly would weigh the scales even more in favor of the United States' consumer.

It is clear that the communist party leadership now plans only a small but steady improvement in living standards -- an improvement which will be highly publicized and probably exaggerated. In fact, if Khrushchev were to deliver on his promise to give the Soviet people the world's highest standard of living by 1970, the prospects for world peace would be immeasurably improved. However, the chances of such a revolutionary development are very remote indeed.

The Soviet leadership patently intends to use the lion's share of future production gains to promote their imperialistic ambitions for world power. I refer not only to the development and production of advanced weapons systems and the forced growth of heavy industry, but to the export of communism by all possible means.

The principal targets of international communism are the newly emergent and fragile democracies of the Free World. The integrated offensive is directed from Moscow, but coordinated as necessary with Peking and the European Satellites. The formal organization responsible for Bloc integration of the economic aspects of the program is the Council for Mutual Economic Assistance (CEMA), with headquarters in Moscow. The USSR and all of the European Satellite countries are members of CEMA; Communist China, while not a formal member, appears to play at least a consultative role.

Both inside and outside of the CEMA framework, the coordination process includes not only the economic blandishments of trade and aid, but also cultural exchanges, political intrigue, psychological propaganda, and outright subversion. The communist strategy is to infiltrate and absorb, to undermine and replace, and ultimately to take over without firing a shot, if possible.

In too many countries of Asia and Africa, illiteracy and ignorance go hand in hand with low per capita incomes--incomes which not infrequently average less than \$100 a year. Yet these same countries are emerging as independent states at a rapid rate.

For example, Togoland, Somalia, Nigeria, Congo, Madagascar, and Mali (the Federation of Senegal and Soudan) will join the ranks of new African states before 1960 draws to a close. To these people, possessed with a strong determination to establish quickly a better way of life, the Soviet story of rapid economic growth has great appeal.

Khrushchev has admitted that the USSR's economic relations with the underdeveloped countries of the Free World generally have not paid off, in economic terms. About a year ago he said,

"Another form of relations is that obtaining between Socialist countries and the economically underdeveloped countries. One may not, of course, say in this case that our economic relations are based on mutual advantage. Speaking generally from the commercial viewpoint, our economic and technical aid is even unprofitable to us. However, aid to the underdeveloped countries is necessary

from the viewpoint of humanity and genuine human solidarity."

Indeed, an examination of the Free World countries who are the primary recipients of Soviet Bloc aid would not support the thesis that they have received aid because of their ability to satisfy the strategic or essential import requirements of the Bloc. Let me give you some examples.

The USSR imports cotton from Egypt, while at the same time it exports comparable grades of Soviet cotton to Western Europe.

The tea, hides, and rope from India cannot be said to be high priority imports for the Soviet Union, nor can the coffee that will come from Brazil.

Rubber is, of course, of strategic importance to the Soviet Bloc. But Bloc purchases in total fluctuate widely from year to year. Also, rubber purchasing activity has switched from country to country in response to changes in the political climate and the progress of the Bloc's programs in the individual underdeveloped country. Last year, most of the rubber purchased by the Soviet Bloc came from Malaya, a country which receives no aid from any communist country.

The fact that the bulk of Soviet Bloc imports from underdeveloped countries are raw materials for industry, primarily of agricultural origin, presents the Bloc purchasers with a highly permissive situation. Further, the quantities imported are usually small in relation to production of the same or comparable items within the



Sino-Soviet Bloc itself. Because the communist nations can make use of the goods which they import, the financial losses must be small. For all these reasons, the Soviet leaders are free to move quickly if they spot an opportunity for political advantage.

What are some of the common characteristics of Bloc aid programs?

First of all, Bloc aid is offered on an integrated and continuing basis. A line of credit is offered simultaneously with offers of technical assistance, training, and perhaps most important, increased trade opportunities.

If an underdeveloped country is having difficulty in selling its products at adequate prices in the export market, the Bloc's long term trade offers have particular appeal. Since the size of their program is not subject to annual Congressional review, the Soviets are not inhibited from signing long-term agreements.

Because of our own agricultural surpluses, we would find it politically difficult, if not impossible, to offer a guaranteed market for Egyptian cotton or Burmese rice, to cite only two examples.

Secondly, U.S. aid has been largely on a grant basis, whereas Bloc aid has been predominantly given on a credit basis. Generally, Bloc loans carry a two-and-one-half percent interest rate, with repayments to begin after the project, such as a cement plant, is finished and has been brought into operation. Further, repayment

is usually in goods, the prices for which are subject to annual negotiation. This gives the Soviets the choice of being tough or lenient, depending on how things are going.

Third, Bloc assistance is geared to industrial development -- construction of complete plants is common -- and is intended to appeal to the desire for immediate and tangible results in industrial production. With some exceptions, Bloc assistance is rarely provided for sanitation, public housing, public education, or agricultural commodities, such as is the case under our PL 480 program. This means that almost all Bloc aid remains a permanent and visible symbol of communist economic and technical achievements.

Fourth, the industrial development assistance made available by the Soviets is almost always directed into the public sector of the economy, not the private sector.

Finally, Bloc aid programs are free of military pacts. This gives them a particular esteem in underdeveloped countries. In contrast, over 80 percent of our own aid goes to countries with which the U.S. has military agreements.

In summary, the Communist "trade and aid" program has been designed and packaged with the target in mind. It appeals to neutralist sentiment; it appears to provide an attractive supplement, or in some cases, an alternative to U.S. aid.

Communist aid, the plants being built and the thousands of hard working technicians, serve to establish a peaceful Soviet

"presence." It lends credence to Soviet claims of disinterested help in achieving economic betterment. There are no obvious strings attached to it. However, the strings are there.

Communist propaganda, promising a painless industrial transformation, the end of poverty, social stratification, and of agrarian overpopulation, pours into the recipient country, directed overtly or covertly from Moscow. These aggressive campaigns made use of all means of mass communication. Communist tactics include the manipulation of various "cover" and "front" organizations which pretend to represent youth, labor, professional groups and veterans. This challenge is particularly dangerous because it is often misunderstood; the concealment of the Communist role often dupes well-motivated people. We know that Moscow and Peiping are spending, directly and indirectly, hundreds of millions of dollars each year on these investments in disorder.

Nor is this so-called "peaceful competition" being carried out under rules that would be recognized by the Marquis of Queensberry. In Mexico and Argentina, recently, Soviet embassy personnel were caught red-handed in fomenting strikes, a favorite technique. As we meet here this afternoon, classes are being held in Moscow to train native communists from the underdeveloped countries. They are being taught to exploit and pervert the natural aspirations of newly formed democratic organizations and institutions, such as trade unions, in their own countries.

Since the 21st Party Congress, which was held in Moscow last February and attended by representatives of communist parties

from some 60 countries, many of whom were there illegally, against the wishes of their own governments, the role of Red China has been increasing. For example, the Latin American subversives to the Congress returned home via Peiping. Later, the Red Chinese stepped up their Spanish language broadcasts and cultural tours to the Western Hemisphere.

Still more recently, the New China News Agency, an arm of the Chinese Communist Party, established a news service in Cuba. Scores of Communist Chinese military instructors are now in Cuba, at the same time that the training of a native Latin American Communist cadre is being carried out on mainland China, subsidized by the Peiping regime. Most recently, we have seen the purchase by Red China of a sizeable quantity of Cuban sugar, a new event in trade history.

This is the familiar pattern -- the combination of propaganda, economic blandishments, and subversion --; but it now is mushrooming close to our own shores.

I would like to spend a minute on another widely employed device, the use of economic pressure for political purposes. Once the Bloc has succeeded in becoming a significant trading partner out of an underdeveloped country, an economic vulnerability has been created. Its exploitation is a matter of timing. There are many examples of the use by the Soviet Union of trade as a weapon.

Last year, the Soviets threatened to cut off trade with Greece if that nation allowed NATO missile bases to be established on her territory.

Pressure from Moscow for a Soviet-Iranian non-aggression pact was backed up in 1959 by the withholding of orders for Iranian lead and zinc ores, for which the traditional market has been the USSR. This action caused the virtual collapse of the Iranian lead mining industry.

Just a little over a year ago, the Finnish government fell, a victim of Finland's vulnerability to Soviet pressure. Angered by efforts of the Finnish government to move closer to the West, the Soviets were quick to react. They cut off petroleum supplies, cancelled orders for manufactured goods and refused to negotiate a trade agreement. Soviet economic pressure was skillfully coordinated with political pressure by the Finnish Communist Party and with strong attacks by Soviet press and radio on the government of Finland. From the beginning of the Moscow drive to the toppling of the Fagerholm government, only two months elapsed.

The Communist Chinese have learned the same technique. For months, they have been threatening trade reprisals against Indonesia for that country's actions against the Overseas Chinese living within its borders. Indonesia has been removing the Overseas Chinese from their position of exercising a virtual trade monopoly in rural areas, an activity which was profitable

enough to constitute a principal source of revenue for the Indonesian Communist Party.

I do not wish to leave the impression that the leaders of Free World underdeveloped nations are blind to these strings on Communist aid and trade. They are willing to expand their economic contacts with the Soviet Bloc for a variety of reasons. But basic to all explanations of the success of the Bloc program is the fact that underdeveloped countries are capital starved. While admitting their suspicious of Communist intentions, these leaders have defended their acceptance of Bloc assistance on the ground that the great need for capital justified the risk.

Recent months have seen a rise of American prestige and a decline in Communist prestige in many underdeveloped countries. Events such as the communist indoctrination of Free World students sent to the USSR for technical training, the rape of Tibet, and the Chinese border clashes with India not only dull the lure of communism, but brighten the prospects for true democracy.

We now have a breathing spell to soberly consider the best means of marshalling our very great assets and capabilities -- and those of our allies -- to meet the legitimate development needs of the newly emergent countries. It is a challenge worthy of a first claim on our energies and our interests. For the outcome of this fateful competition will do much to determine the shape of tomorrow. As our Director, Mr. Allen Dulles has said,

"If the communists succeed and we fail, it will be because they have devoted a far greater share of their

power, skill and resources to our destruction than we  
have been willing to devote to our own preservation."